

**A PROPOSAL TO IMPROVE DEPOT CIKAMPEK SOCIAL PERFORMANCE UNDER  
OPERATIONAL COOPERATION (KSO) PT PERTAMINA PATRA NIAGA AS AN EFFORT IN  
ACHIEVING SUSTAINABLE DEVELOPMENT PERFORMANCE**

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**Abstract?** *Pertamina's performance in fuel distribution has been judged incompetent in serving fuel stations. Fuel distribution performance degradation can be seen from the fuel stations complaints about the delivery delays, the inaccuracy number of fuel delivered, and poor quality of fuel delivered. There are several issues that cause this, one of them is Depot Cikampek social performance imbalance performance due to the low level of employees' trust, sense of belonging, communication, and engagement as indicated by: fuel tanker fleets protest, boycott and fraudulent behavior, and others employees disorderly. Pertamina Patra Niaga as a holder of Pertamina's depots Operational Cooperation/Kerja Sama Operasi (KSO) agreement has responsibility to the situation. In order to always meet national energy needs, Pertamina and the entire business line include Depot Cikampek required to achieve sustainable development. Using Good Corporate Governance (GCG) as a universal structures and processes for the direction and control of companies that moves towards sustainable development can be found the root causes that causes an imbalance in Depot Cikampek social performance due to the low level of employees' trust, sense of belonging, communication, and engagement. Root causes analysis conducted through qualitative in-depth interviews with relevant parties by comparing the ideal condition with the actual condition in depot. Based on the analysis, the root cause of the problem found is lack of Good Corporate (GCG) principles implementation as indicated by many provisions of those principles that are not well implemented in Depot Cikampek. Good Corporate (GCG) principles that are not well implemented are the provisions in GCG principles: Transparency, Accountability, Responsibility, and Fairness. Based on the existing root causes, there are several proposed solutions that recommended improving Depot Cikampek social performance in order to achieve sustainable development. The proposed solutions are: generate Global Reporting Initiative (GRI) sustainability reporting that publicly reported; generate the stakeholder engagement; implement Knowledge*

*management system; develop, embedded, and integrate human rights policies in Depot Cikampek business management; and finally establish the public affair management as part of organization structure. Those solution aims to increase employees' engagement, sense of belonging, and level of trust to the depot management that can improve Depot Cikampek social performance.*

*Keywords: Good Corporate Governance (GCG), Fuel Depot Cikampek, Pertamina Patra Niaga, social performance, sustainable development, company governance, sustainability reporting, Global Reporting Initiative (GRI).*

## **I. INTRODUCTION**

Since the enactment of Oil and Gas Law No. 22/2001 that, oil and gas downstream business entering the free trade era and generate fierce competitions. It stated also that Pertamina transformed into a profit-oriented state owned company (Persero) and now is one of the players in the oil and gas industry that ready to compete. In downstream sector, the opportunity to create business innovation and its supporting technology are getting bigger. In the future, business in Indonesian oil and gas downstream business sector will be more competitive and it also shows that the pressure will increase.

Pertamina is committed to achieve a balance between the achievements of corporate profits to the quality of public services. Current Pertamina CEO stated that Pertamina want to be a World Class National Oil Company by 2023, meaning being respected by oil companies, having major role in the global energy business and becoming one of 15 best oil companies in the world. Pertamina are fully aware that energy and its sustainability are key issues for countries in the

region and as a global energy company that helps power and sustains people's lives (Novianto, 2011). Pertamina business focuses in investing steadily to deliver more energy to the customers, therefore by having a sustainable development performance, they can contribute to global issue sustainable development. Sustainability concept is a core part of this strategy (PT Pertamina (Persero), 2011).

According Brundtland Commission (1987) sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (The World Bank Group, 2001). According to World Bank (2001), sustainability concept suggests sustainable business to meet the future needs depends on how well they balance social, economic, and environmental objectives or needs when making a business decisions today (The World Bank Group, 2001). Pertamina needs to apply sustainable development concept in any area of decision-making, including its business line and subsidiaries (United Nations, 2007). Sustainable enterprises are social enterprises that result in sustainable development outcomes. Contribute to sustainable development is part of companies' overall management quality needed to compete successfully (Taylor, Šrot, & Gunnarsson, 2010). Sustainable enterprise is a worthy goal for businesses everywhere.

In early 2012, Pertamina tighten then fuel (BBM) distribution to fuel stations (SPBU), especially the subsidized fuel towards the issue about general policy of raising subsidized fuel price and the restriction of subsidized fuel quota. Tightening the distribution is in order to face the increments in fuel consumption in the first two months that has reached 12% above realization of consumption over the same period last year (PT Pertamina (Persero), 2012). Pertamina has the biggest quota distribution, the amount of the subsidized fuel distribution quota for Pertamina in 2012 is 99.6 percent shares of total distribution 37.5 million KL (PT Pertamina (Persero), 2011). The quota distribution shows that the population and industry growth is depending on the Pertamina capability in distributing fuel. Fuel depot and tanker fleets are key position in providing fuel distribution service to the fuel station. Fuel depot and fuel tanker fleet performance could affect the fuel station (SPBU) services the customers, whereas the fuel station is the main gate to determine

corporate image because it has a direct contact with end-customer.

Considering Pertamina fuel depots' role and demand in providing energy, it is necessary to implement sustainable development performance in fuel depot to support sustainability of Pertamina downstream business and could contribute to sustainable development issue at once. Therefore, fuel depot needs to avoid social problems that arise from their stakeholder as it had been widely reported. The value of company is impacted by the quality of its relationships with internal and external stakeholder. The study also found employee and/or labor and local community to be second only to customers as drivers to sustainability initiatives. The ability of company and/or enterprise to communicate its activities and performance effectively with its key stakeholder can be critical to its long-term success, viability, growth and sustainability (KPMG, 2008).

Good Corporate Governance (GCG) refers to the universal structures and processes for the direction and control of companies with the principles of governance such as: Transparency; Accountability; Responsibility; Independence; and Fairness is as the interest of the stakeholders (Organization for Economic Co-operation and Development (OECD), 2012). GCG contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. Good governance plays an essential part in securing the future of an organization. Therefore, GCG is necessary to be implemented in Pertamina's depot and the principles are considered as an appropriate standard to analyze Pertamina's depot business situation.

In 2009 Pertamina compose a solid synergy with PT Pertamina Patra Niaga known as Pertamina Patra Niaga to manage and improve the fuel depot and tanker fleet performance through a sharing operation agreement, namely Operational Cooperation/*Kerja Sama Operasi* (KSO). Since the agreement was made, Pertamina Patra Niaga has an obligation to preparing Pertamina depots to pursuit the sustainability performance by improving the depot's social performance. GCG that already used by Pertamina, become trusted and credible guidance to help Pertamina Patra Niaga to set goals, measure performance, and manage change to achieve Pertamina's depots sustainability performance.

## II. BUSINESS ISSUE EXPLORATION

### A. Problem Statement

Pertamina and its downstream subsidiaries are facing problems in national fuel distribution. Worst by the issues of subsidized fuel price increases and quota restriction that causes a significant increase in demand, Pertamina's performance in fuel distribution keeps declining. Pertamina was judged incompetent to serve fuel stations. At the same time, pressure for Pertamina's Fuel Depot to have sustainability performance is greater because Pertamina role in meet the national needs of fuel is very crucial.

Pertamina's fuel depot such as Depot Cikampek often facing social problems from the depot's employees such as: fuel tanker fleets protest; boycott and fraudulent behavior; fleet and distribution staff negligence in control the schedule; and other employees' disorderly (Heikal, 2012). The social problems often ruin the fuel distributin departure schedule, the quality of fuel, the delivery quotas (Triwaluyo, 2012). Pressures from labor indicate the imbalance in the enterprise social performance (Global Reporting Initiative, 2011). Human Resource manager of Pertamina Patra Niaga admitted that the low level of employees' trust, sense of belonging, communication, and engagement, is the reason of employees disorderly (Suparjono, 2012). When the trust and engagement of workers against the company declined, regulations in the company will not working (Organization for Economic Co-operation and Development (OECD), 2000). The imbalance in the social performance due to the low level of employees' trust, sense of belonging, communication, and engagement will hamper the transformation toward sustainable performance. This condition is becomes a research problem in this final project.

Pertamina Patra Niaga in order to always be trusted by Pertamina to have periodical Operational Cooperation contract (KSO) is demanded to constantly improve the depot's social performance in order to achieve the target set by Pertamina. Therefore, the objectives of this research were help Pertamina Patra Niaga to improve Depot Cikampek social performance by answering these problem formulations:

1. What is the root cause of the Depot Cikampek social performance imbalance due to the low level of employees' trust, sense of belonging, communication, and engagement?

2. What kind of initiatives and/or strategies that could improve Depot Cikampek social performance and preventing the occurrence of the social problems that arise from the employees?

### B. Research Limitation

In this research, there are some restrictions that aim to keep the consistency of the author's own purpose. Restrictions that exist are as follows:

1. The unit analysis that is become the research object is Depot Cikampek which managed by Pertamina Patra Niaga as the party who has the direct contact to the depot's employee.
2. Fuel depot that becomes the research object is Pertamina's Depot Cikampek because the depot is the only depot that running under Full-Operational Cooperation/KSO agreement, which is full under Pertamina Patra Niaga management and also become a transformation model for other depots.
3. The discussion is limited to the Depot Cikampek social performance imbalance due to the low level of employee's trust, sense of belonging, communication, and engagement as indicated by the tanker fleets and other employees disorderly.
4. The research is only conducted from December 2011 until April 2012.
5. The implementation evaluation was not conducted of this final project research.

### C. Conceptual Framework

Conceptual framework in research identifies important variables that are required to find business solutions of the problems and business issues faced by the company. The conceptual framework can be seen in Figure 1. Existing model analysis (Figure 1) can give understanding of how the research runs before. Depot Cikampek business issues need to be identified first then the problem statement was made. Root cause was analyzed by comparing the existing condition to the ideal condition according to Indonesia's Good Corporate Governance (GCG) principles. All important variables had been identified and we can find the optimum condition between all of those variables, an effective and efficient alternative solution could be formulated and the implemented will result effective and efficient output

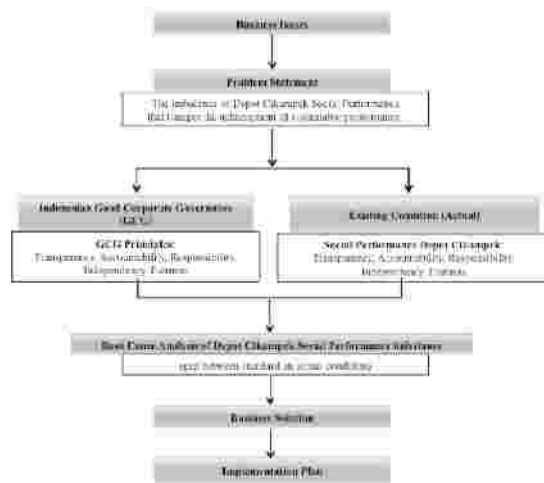


Fig. 1 Conceptual Framework

#### D. Research Methodology

The research was done late December 2011 to early April 2012. The research was did by several types and techniques of data collection to gather all data and information to: *understanding Depot Cikampek business process* and to *evaluating existing Depot Cikampek social performance's policies, strategies, and situation*. Types and techniques of data collection are as follows:

##### 1. Primary data.

The data directly obtained by conducting by depth interview to some informants such as site manager Depot Cikampek and Depot Plumpang, Pertamina Patra Niaga Human Resource Manager, Depot supervisor from Pertamina, one supervisor and/or staff from every each division in Depot Cikampek, head of the labor association, and Local Village Government officer. They were chosen as informants because they are parties who are considered understand and relate directly to the problem in this final project research and they are also the parties that are allowed to be informants by Patra Niaga. The data obtained by field observations and from the company reports also. Observation was focused on Depot Cikampek daily business activities and business process based on Depot Cikampek KSO Term of Reference; the strategies, policies, and situation of Depot Cikampek social performance based on Good Corporate Governance (GCG) principle implementation.

##### 2. Secondary data.

The data obtained through company's documents and also literature study. Literature can be about theories, news,

and industry situation that are related to research, reports of scientific research, and also many information from internet

After collecting data and information to exposure and evaluation of the existing policies, strategies, and condition of Depot Cikampek social performance through the comparison with GCG standard implementation, the comparison will resulting the differences/gaps. The gaps will consider as the root cause of the problem. The evaluation is aimed to evaluate the Good Corporate Governance principles (Transparency; Accountability; Responsibility; Independency; and Fairness) implementation in Depot Cikampek

After root causes are identified, business solution can be proposed. Based on all analysis of data gathered, author could obtain some points of research conclusion. This conclusion is to answer the research objectives. After that, there are some recommendations that could be implemented to improve the social performance of Depot Cikampek towards the sustainability.

#### E. Literature

##### Business and Society

The company's business activities are embedded in networks and affected not only itself but also have ongoing boundary exchange with customers, governments, competitors, the media, communities and many other individual or group. Business is part of society, and society penetrates far and often into business decisions. In a worldwide global communication is rapidly expanding, the connections are closer than ever before. People will prefer and more respect to company that has commitment to their society (Lawrence & Weber, 2008).

##### Public Issue

The emergence of new public issues presents both a risk and an opportunity for companies. Because of the importance of public issues, many companies have moved to integrate public affairs activities tightly with strategic management at highest level of the company. Public issue is an issue that is of mutual concern to an organization and one or more of the stakeholders. The emergence of a new public issue often indicates there is a gap between what the firm wants and what stakeholders expect, this is called *performance-expectations gap*. Stakeholder expectations are mixture of peoples' opinions, attitudes, and beliefs about what constitutes reasonable business behavior (Lawrence & Weber, 2008). Failure to understand stakeholder concerns and to respond

appropriately will permit the *performance-expectations gap* to grow: the larger the gap, the greater the risk of stakeholder backlash or of missing a major business opportunity (Lawrence & Weber, 2008).

### ***The Corporation and Its Stakeholder***

The term stakeholder refers to persons and/or group that affect, or are affected by, an organization's decisions, policies, and operations (Freeman, 2002). Each of them shares, to some degree in both the risks and rewards of the firm's activities and each has some kind of claim on the firm's resources and attention, based on law, moral right, or both (Lawrence & Weber, 2008). Stakeholder theory moved from an entirely corporate-centric focus in which stakeholders are viewed as subjects to be managed towards more of a network-based, relational and process-oriented view of company-stakeholder engagement, where at least there is consideration of mutuality, interdependence and power (Freeman, 2002).

Stakeholder engagement very important in business and society relationship and it provides a useful tool for managers to help them engage collaboratively with stakeholders to create value. To be successful in engagement, the process requires that participants express their own views fully, listen carefully and respectfully to others, and open themselves to creative thinking and new ways of looking at and solving a problem.(Lawrence & Weber, 2008).

### ***Sustainable Development and Sustainable Enterprise***

The Brundtland Commission's in 1987 brief definition of sustainable development as:

*"The ability to make development sustainable- to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs"*<sup>1</sup>

The concept supports strong economic and social development, in particular for people with low standard of living (United Nations, 2002). Sustainable development pattern was born in response to the development of the world. Although reinterpreted over time since the last half of the twentieth century, the four keys emerged from the collective concerns and aspirations of the world's peoples, which are: peace, freedom, development, and environment

remain prominent issues and aspirations. Sustainable development identified calls to develop society that emphasized the values of security and well being of national states, regions, and institutions as well as the social capital relationships and community ties (Kates, Parris, & Leiserowitz, 2005). The *World Summit on Sustainable Development* held in Johannesburg, South Africa in early September 2002 marked a further expansion of the standard definition with the widely used three pillars of sustainable development, which are: economic, social, and environmental. (Kates, Parris, & Leiserowitz, 2005).

According to Djajadiningrat (2005), sustainable development requires the fulfillment of basic needs and human aspirations by means improving their production potential and ensuring equal opportunities for all to pursue a better life. Basic needs in this context are reasonable and sustain needs and have closely dependencies with environment. Reasonable needs are socially and culturally determined. The sustainable development achievement requires few systems that support each other, which are: a political system which ensures the community's effective participations in decision-making, an economic system which able to generate surplus and technical knowledge based on its own capabilities and sustainable, a social system which can provides a settlement to the tensions that arise as the result of the development that is not aligned, a production system which respects the obligation of preserving ecology, an international system which helps the development of trade pattern and sustainable financial, and a flexible administration system that has the ability to repair itself. More importantly, the ability and the sincerity must accompany the efforts to achieve the purposes and effectiveness correction in every deviation. (Djajadiningrat, 2005).

The emergence of sustainable development concept has important implications and poses new challenges for business enterprise. Industries aim to create the condition in which business enterprises can thrive and can maximize their contribution to sustainable development (Bärlund, 2004-2005). Sustainable development as a concept, as a goal, and as a movement spread rapidly and is now central to the mission of countless international organizations, national institutions, corporate

<sup>1</sup>From the World Commission on Environment and Development's (The Brundtland Commission) report *Our Common Future*, Oxford: Oxford University Press 1987, downloaded from [www.worldbank.org](http://www.worldbank.org) at February 20<sup>th</sup>, 2012

enterprises, sustainable cities, and locals (Kates, Parris, & Leiserowitz, 2005).

For business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the business and its stakeholders<sup>2</sup>, while protecting, sustaining and enhancing the human and natural resources that will be needed in the future. By adopting sustainable development practices, companies can gain competitive edge, increase their market share, and boost shareholder value (International Institute for Sustainable Development (IISD), 2012).

Competitiveness and sustainability are mutually reinforcing concepts. Increasingly, businesses are expected to find ways to be part of the solution to the world's environmental and social problems. The best enterprises are finding ways to turn this responsibility into opportunity and believe that when business and societal interests overlap, everyone wins (Savitz, 2012). Sustainable enterprise has great potential as a means of generating sustainable development. Sustainable enterprises are also social enterprise that results in sustainable development outcomes (Taylor, Šrot, & Gunnarsson, 2010).

Businesses can find approaches that will move towards all three goals: environmental protections, social wellbeing and economic development at the same time. Until recently the third sustainable development pillar—social pillar—has received less attention. Therefore far greater emphasis is being placed now on social progress (Organization for Economic Co-operation and Development (OECD), 2000). As the emphasis is put more on the social pillar of sustainability, transparency and accountability are further challenge for business enterprise because it is describe what civil society expects from business. According to OECD (2000) about transparency and accountability is as follows:

*“Everyone knows everything about you all the time” in today’s information-driven, globalized world. The management of reputation thus becomes a central element in running a corporation, and this involves communicating, explicitly, the values and principles on which companies base their*

*operations – and, centrally, how they live up to those values and principles. Corporations face increasingly intense scrutiny: to contend with this, they will have to enforce a set of globalized corporate values throughout their operations.”*

Civil society has matured, at a time when governments have been weakened. This means that important decisions affecting society can no longer be pushed through without wide consultations with stakeholders (Organization for Economic Co-operation and Development (OECD), 2000).

### **Good Corporate Governance (GCG)**

Good corporate governance (GCG) is an important pillar of market economy as it relates to the investors' confidence both in the companies as well as in the overall business environment. Implementation of GCG encourages fair competition and conducive business climate leading to sustainable economic growth and stability. It is clearly accepted that good governance is fundamental to the successfully continuing operating of any organization. One factor, which is significantly affected by such governance, is that of risk assessment and management. Good governance reduces risk and facilitates its management.

Good Corporate Governance (GCG) is all about commitment of a company to run its businesses in a legal, ethical, and transparent manner, and that issue must be set at the top. GCG is procedures and processes according to which an organization is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization (the board, managers, shareholders and other stakeholders) and lays down the rules and procedures for decision-making (Organization for Economic Co-operation and Development (OECD), 2012).

Corporate Governance deals with determining ways to take effective strategic decisions. Corporate Governance ensures transparency, which ensures strong and balanced economic development. Corporate Governance encourages a trustworthy, moral, as well as ethical environment (The World Bank Group, 2010). Good governance is about making sure an organization is running well. Organizations that are not well governed tend not to make the best of their opportunities and resources. Good

<sup>2</sup>Based on the book Business Strategy for Sustainable Development: Leadership and Accountability for the 90s, published in 1992 by the International Institute for Sustainable Development in conjunction with Deloitte & Touche and the World Business Council for Sustainable Development. Downloaded from [www.iisd.org](http://www.iisd.org) at May 28<sup>th</sup>, 2012

governance therefore plays an essential part in securing the future of an organization.

Good Corporate Governance (GCG) implementation advantages or benefits, such as:

1. Management

GCG allows stakeholders to assess the company on how well it is being governed. The core of GCG is its transparency and disclosure. GCG ensures higher market valuation. GCG initiatives should ensure that the board of control and management take the necessary steps that are in the best interest of the business of the company.

2. Transparency

GCG encourages more transparency of the business, thereby attaining the trust of its stakeholders. Raising capital becomes easier because of the support the company earns from its stakeholders. Asset diversification through mergers and acquisitions is easier. Corporate governance practices encourage a system of internal control, which in turn leads to better profit margins. Thus, for a company, GCG initiatives make it possible to attract equity investors. Investors prefer to invest in the one that has shown a proven record as a well-governed company.

3. Benefits to Shareholders

Good corporate governance initiatives can assist the board of control and the management to act on objectives that are in the best interest of both the company and the shareholders. The shareholders also have greater security on the investments they have made because of the transparency and access to investment details.

4. Benefits to the National Economy

If a country has a reputation for its strong governance practices, this leads to greater confidence in the investors, which in turn leads to a good flow in capital. The reporting and accounting standards adopted by the country are also an important factor to bring in investments.

Good Corporate Governance are made with the purpose of:

- Achieving sustainable growth of the company through a management system based on the principles of Transparency, Accountability, Responsibility, Independency, and Fairness.
- Empowering the function and independency of each company organ, namely, the Board of Commissioners, the Board of Directors and the General Meeting of Shareholders.

- Encouraging shareholders, members of the Board of Commissioners and members of the Board of Directors to take decisions and actions based on high moral values and compliance with the law and regulations.
- Stimulating the company awareness of social responsibilities in particular the environmental and societal interests of the communities in which a company operates.
- Optimizing the value of a company for its shareholders by also taking into consideration the interests of other stakeholders.
- Enhancing the competitiveness of a company, both nationally and internationally, in order to enhance market confidence, which may promote investment flow and a sustainable national economic growth.

The general GCG principles are:

1. Transparency

To preserve and maintain the objectivity in practicing business, a company must provide material and relevant information that are easily accessible and understandable by stakeholders. A company must take the initiative to disclose not only the issues mandated by laws and regulations, but also other information deemed necessary by shareholders, creditors and other stakeholders to form a decision.

2. Accountability

A company must be accountable for its performance transparently and fairly. Thus, a company must be managed in a proper and measurable manner, in such that it is aligned with the interest of a company by also considering the interest of shareholders and other stakeholders. Accountability is a prerequisite to achieve sustainable performance.

3. Responsibility

A company shall abide by laws and regulations and fulfill its responsibility to the communities and environment for the purpose of maintaining long term sustainability of the business and to be recognized as a good corporate citizen.

4. Independency

To accelerate the implementation of the GCG principles, a company must be managed independently with an appropriate balance of power, in such a manner that no single company's organ shall dominate the other and that no intervention from other party shall exist.

5. Fairness



In conducting its activities, a company must always consider the interests of shareholders and other stakeholders based on a fairness principle.

### III. RESEARCH FINDING

#### A. Depot Cikampek Business Process

Depot Cikampek now covers fuel stations in an area of Karawang, Purwakarta, Subang, East Bekasi, and West Bekasi. Depot Cikampek operational is under Pertamina Patra Niaga management (Operational Cooperation/KSO) since a period of management 2008 – 2009. Operational Cooperation is forms of Pertamina's Depot management cooperation to its partners that include fuel receive activities, storage, and distribuion activities, including facilities maintenance as shown in Figure 2 (PT Pertamina (Persero) Marketing and Trading Directorate, 2007).

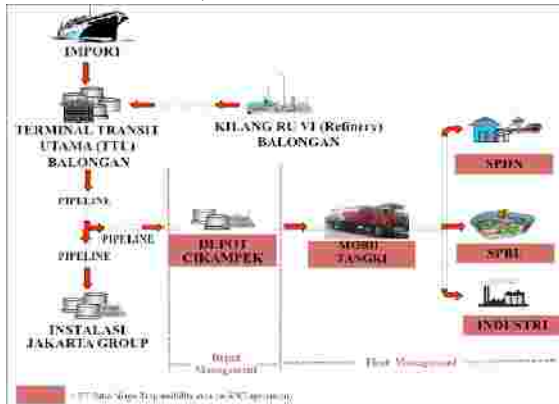


Figure. 2 Depot Cikampek Business Process

According to PT Patra Niaga Fuel Depot's Term of Reference (2007), Depot is the venue for Pertamina's Marketing Unit (Upms) operations activities such as fuel and/or non-fuel receiving, storage and distributing. KSO agreement scope of this depot management is divided into three activities includes:

1. Operation activities for fuel receive, storage, and distribution.
2. Maintenance activities for depot equipment, and facilities.
3. Support activities such as: administration, security, training, and other support activities.

Full KSO agreement provides the authority and obligation to Pertamina Patra Niaga to run the full management starts from depot/storage until fleet management (Triwaluyo, 2012).

#### B. Evaluating Existing Depot Cikampek Social Performance's Policies, Strategies and Situation

There are 5 (five) general principles good governance according to Indonesia's Code of Good Corporate Governance Standard (2006), and the implementation will be evaluated in Depot Cikampek. The general principles are: Transparency, Accountability, Responsibility, Independency, and Fairness. In evaluating process, every each general principle has several provisions in the implementation and the provisions implementation in Depot Cikampek will evaluate.

From the evaluation result we can gather that GCG principle implementation in Depot Cikampek as listed below:

1. **Transparency:** Depot Cikampek do not have an effective communication form with their employees. Depot Cikampek still have lots of incomplete document. Depot Cikampek also lack of clearly and openly information about labor practices and decent works, as well as human rights aspects. Depot Cikampek have not providing transparency. Company policies are formally written but not proportionally communicated to stakeholders especially its outsourced employees. There is no transparency, and clearly information about the programs and the implementation
2. **Accountability:** Depot Cikampek has not been well-implemented and integrated Human Rights policies/clauses in Depot Cikampek business practices.
3. **Responsibility:** Depot Cikampek are lack of prudence in decision-making and in its actions; lack of coordination, communication, and employee inclusiveness in making a decision; lack of local community engagement, impact assessments, and development program; has no specific SOP related to social responsibility; and has no clearly, openly (transparency) document related information significant potential or actual negative impacts on local communities
4. **Independency:** Depot Cikampek that running under Pertamina Patra Niaga management is already well implemented Independency principle.
5. **Fairness:** Depot Cikampek barely give their employee to giving input related to the Depot Cikampek business practices. They also barely provide formal/informal forum to sharing information, giving input,



evaluation, and/or discussion with their stakeholders, especially with their employees.

### C. Root Cause Analysis

The gap that emerged from the comparison of the ideal social condition based on Indonesia's Code of Good Corporate Governance (2006) with the existing condition at the Depot Cikampek considered as root causes of the imbalance of Depot Cikampek social performance the low level of employees' trust, sense of belonging, communication, and engagement. The root causes outline can be seen in Table 1.

Table 1. Root Causes Outline

No	GCG Principle	Roots Cause
1	Transparency	Lack of clearly and openly information related to the interest of the company's business practices Incomplete document related to Depot Cikampek social performance related to human rights and training education material Lack of communication form between employee and management
2	Accountability	Human Rights claims have not been well implementation and integrated into Depot Cikampek business ethics
3	Responsibility	Lack of coordination, communication, and stakeholders (especially the employees) involvement in making a decision Lack of local community engagement, impact assessments, and development program Has no specific SOP related to Depot Cikampek social responsibility Has no clearly, openly transparency document related information significant potential or actual negative impacts on local communities
4	Independency	-
5	Fairness	Hardly provides an opportunity for stakeholders to give input and opinions in the interest of a company Have not formed or different focus for discussion and sharing information

## IV. BUSINESS SOLUTION

Each of the root cause in every social performance indicators will be directed to each solution formulation and analysis. The solutions have to be related to business issue and could answer the problem that had been stated previously. The business solutions are summarized in Table 2. In Table 2 can be seen that from the root cause analysis, found that there are several root causes that have similar solution.

Table 2. The Business Solution Summary

No	GCG Principle	Root Cause	Point	Business Solution
1	Transparency	Lack of clearly and openly information related to the interest of the company's business practices	3.2.1	GRI Sustainability Reporting
		Incomplete document related to Depot Cikampek social performance related to human rights and training education material	3.2.2	Knowledge Management
		Lack of communication form between employee and management	3.2.3	Stakeholder employee engagement
			3.2.1	GRI Sustainability Reporting
2	Accountability	Human Rights claims have not been well implementation and integrated into Depot Cikampek business ethics	3.2	Develop and Improve Human Rights Policy in Business Management
3	Responsibility	Lack of coordination, communication, and stakeholders (especially the employees) involvement in making a decision	3.2.3	Stakeholder employee engagement
		Lack of local community engagement, impact assessments, and development program	3.2.2	Stakeholder employee engagement
		Has no specific SOP related to Depot Cikampek social responsibility	3.2.5	Public Affair Management
		Has no clearly, openly transparency document related information significant potential or actual negative impacts on local communities	3.2.4	GRI Sustainability Reporting
4	Independency	-		
5	Fairness	Hardly provides an opportunity for stakeholders to give input and opinions in the interest of a company	3.2.2	Stakeholder employee engagement
		Have not formed or different focus for discussion and sharing information	3.2.3	Knowledge Management

### A. Global Reporting Initiative (GRI) Sustainability Reporting

Every each GRI Social Performance Indicators (Labor Practices, Human Rights, Society, and Product Responsibility) necessitate the organization/enterprise to have transparency, clearly, and openly information about all aspects in it. Because it could describe the accountability, transparency, and sustainability of the enterprise as the stakeholders expected. Whereas, from the root cause analysis we can gather that there is inadequacy information for the stakeholders about the Depot Cikampek business activities an performance (as shown in Table 2).

New generation has grown up in an age of information overload and a collaborative group. They live in a world of open communication and that is the only manner they trust. Transparency is the only way to deal with this generation. In the dynamic business environment that we operate requires trust. There is no choice other than building business on the honest evaluation catalyzing change within environment of trust and transparency.

GRI sustainability reporting can help Depot Cikampek engage in open and transparent dialogue with stakeholders by disclosing the impacts, initiatives, and management approach concerning the information that stakeholder expected. The reporting provides a map of the enterprise impacts, risks, liabilities, and performance. There are several steps that organization should do to produce the sustainability reporting:

1. Compose stakeholders analysis to obtain stakeholder mapping and stakeholders' expectation mapping.
2. Determining the report content and quality. There are three-steps process to decide on the material issues for the report. The three steps are: 1) identify issues, 2) analyze and prioritize them, and 3) determine how to report.
3. Finally, communicated the results of this process to the businesses and/or stakeholders so that the company can use it to improve stakeholder engagement. Their sustainability performance is monitored. Data can be provided regularly to senior decision makers to shape company strategy and policy and improve performance.

Sustainability reporting is a living process and tool, and does not begin or end with a printed or online publication. Reporting should fit into a broader process for setting organizational strategy, implementing action plans, and assessing outcomes. Reporting enables a robust assessment of the organization's performance, and can support continuous improvement in performance over time. It also serves as a tool for engaging with stakeholders and securing useful input to organizational processes.

### **B. Stakeholder Engagement**

Pertamina Patra Niaga need to develop stakeholder/ engagement programs that can generate a media to communication and sharing about information related to the company's stakeholders expectation. Since stakeholder is refers to persons and group that affect, or are affected by, an organization's decisions, policies, and operations, in Depot Cikampek case, the stakeholders in question are Depot Cikampek employees (fuel tanker fleets and other employees).

Therefore, by providing the stakeholder engagement Depot Cikampek could solve the lack of local community engagement, impact assessments, and development program and the lack of formal/informal forum for communication and sharing information root causes as well.

Engaging interactively with stakeholders, whether through dialogue or some other process, carries a number of potential benefits. It can help companies learn about society's expectations, draw on outside expertise,

generate creative solutions, and win stakeholder support.

The AccountAbility Stakeholder Engagement Standard 2011 (AA1000 SES) provides a basis for designing, implementing, evaluating, and assuring the quality of stakeholder engagement. It has been designed to be multi-purpose, not just for sustainable development, and can be used by businesses, civil society, public bodies, and multi stakeholder networks and partnership (AccountAbility Stakeholder Engagement Technical Committee, 2011). Therefore, appropriate to implement this standard in Depot Cikampek considering the purpose of sustainable development Depot and it also has multi stakeholder. The step to develop stakeholder engagement according to AA1000SES are describe below:

1. Understanding and determining the purpose (why to engaging), the scope (what to engaging), and the ownership, mandate and stakeholders (who need to be involved).
2. Planning, Preparing, Implementing, Reviewing, and Improving Stakeholder engagement.

#### **Planning stage:**

The owner of the engagement shall make:

- i. The stakeholder analysis and mapping
- ii. Determine the level(s) and method(s) of engaging with their stakeholder.
- iii. Do the pre-engagement activities.
- iv. Establish and communicate boundaries of disclosure
- v. Giving Opportunity to the stakeholder inclusiveness in giving the input into the plan.
- vi. Establish the indicators that allow an organization to measure and evaluate the progress towards achieving quality stakeholder engagement.

#### **Preparing stage:**

In preparing stage the owner of the engagement shall mobilize resources, building capacity (knowledge, opportunity, and skills), and finally identify and prepare for engagement risks.

#### **Implementing stage:**

The owner of the engagement shall invite the stakeholders to participate in advance and to communicate information related to the engagement, briefing the stakeholders about the engagement materials, being engage and immediately identify the root cause of potential issues, document the engagement and its output,

develop the action plan, and communicate the engagement output and action plan.

**Act, Review, and Improvement stage:**

The owner of the engagement shall monitor and evaluate the engagement, learn and improve, follow up on action plan, and last the organization or the owner of engagement shall publicly report on their stakeholder engagement.

**C. Knowledge Management System**

Knowledge management is the deliberate and systematic coordination of an organization's people, technology, processes, and organizational structure in order to add value through reuse and innovation. This coordination is achieved through creating, sharing, and applying knowledge (Dalkir, 2005). Knowledge management is a systematic approach to manage the use of information in order to provide a continuous flow of Knowledge to the right people at the right time enabling efficient and effective decision making in their everyday business. Therefore, Knowledge management system implementation can solve the absence of formal or informal forum for communication and sharing information problem, especially training and education material (as shown in Table 2).

Knowledge implementation steps, which appropriate with Depot Cikampek type of business, business nature, company culture, and the business problems, are as follow:

1. Issues or business problem identification and analysis.
2. Prepare for change.
3. Create the Knowledge Management team.
4. Perform the knowledge audit and analysis.
5. Define the Key Features of the solution.
6. Capture tacit knowledge and knowledge mapping.
7. Link Knowledge to people.

Knowledge management system should be accessible to every business entities in Depot Cikampek. Should be updated and every employee and management have to contribute to knowledge management system utilization. The effective Knowledge Management system will improve the organization knowledge, communication, sense of belonging, and engagement between the organization and its employee.

**D. Develop, Embedded, and Integrate Human Rights Policies into Depot Cikampek Business Management**

Being proactive on human rights could make good business sense. Respecting human rights is the right thing to do because it is in line with core business values such as integrity, respect for people, and equal opportunity. It helps protect business value by maintaining reputation, avoiding strikes, boycotts and protest, and prevents disputes from becoming costly lawsuits or damaging public campaigns. Human rights increasingly helps raising the bottom line as it assists companies in understanding different individuals' needs and makes a company more attractive to investors and prospective employees (Amis, 2011).

Company's stakeholders expect that companies integrate human rights in their business practices. In an effort to respond, companies have committed themselves to voluntary initiatives such as the United Nations Global Compact (UNGC) by referring to human rights in their business principles. The process to develop human rights policies according to UNGC and OHCHR (2011) are:

1. Assign senior management to drive the process.
2. Involve all business operations.
3. Conduct a basic policy gap analysis/mapping exercise.
4. Consult internal and external stakeholders.
5. Communicate the policies internally and externally and stipulate expectations.
6. Reflect the human rights policies in operational policies and procedure.

Developing human rights policies are only the first step for company to know and show that they respects human rights. Embedding and integrating it throughout the relevant processes and procedures of the company is necessary to ensure its effective implementation . According to UNGC and OHCHR (2011), key points to consider when moving towards implementation to embedded and integrate human rights policy into business management are as follow:

1. An assessment of the company's human rights impacts
2. Integration of the assessment's finding across relevant internal functions and processes in order to ensure that actual or potential adverse human rights impacts are effectively prevented and mitigated.

3. Tracking the effectiveness of the response to actual or potential adverse human rights impacts.
4. Being prepared to communicate how human rights impacts are addressed.
5. Providing for or cooperating in the remediation of negative human rights impacts the company has caused or contributed to.

#### **E. Public Affair Management**

The pressure on business firm that arise from public issues and the increasingly complex relationships organizations have with stakeholders, have led many companies to create specialized departments to manage public affairs. Considering the root cause analysis as shown in Table 2. Depot Cikampek requires public affair management to be part of the organizational structure. Public affairs management refers broadly to the active management of a company's relations with stakeholders (Lawrence & Weber, 2008). The duties of the corporate public affairs function have evolved in recent years, especially as the number of stakeholder issues has grown and become complex and more important to business.

According to State of Corporate Public (2005) the main activities of public affairs managers include government relations issue management, and working with trade associations, and stakeholder coalitions<sup>3</sup>. One primary function of the public affairs management is to manage public issues as they emerge. Issue management is a structured and systematic process to aid organizations in identifying, monitoring, and selecting public issues that warrant organizational action (Lawrence & Weber, 2008). Establish the public affair management as part of organization structure to prevent the occurrence of the society problems and to develop specific SOP related to Depot Cikampek social responsibility. The entire solutions above are the strategies formulation to improve Depot Cikampek social performance.

### **V. CONCLUSION & FURTHER SUGGESTION**

#### **A. Conclusion**

There was a sustainable development fuel distribution performance problem related to the

imbalance in Depot Cikampek social performance due to the low level of employee's trust, sense of belonging, communication and engagement. The root causes arise from the implementation of Good Corporate Governance (GCG) principles provisions, which are provisions in Transparency, Accountability, Responsibility, and Fairness principle, as listed below:

1. Lack of clearly and openly information related to the interest of the company's business practices.
2. Incomplete document related to Depot Cikampek social performance (related to human rights and training/education material).
3. Lack of communication form between employee and management.
4. Human Rights clauses have not been well implemented and integrated into Depot Cikampek business ethics
5. Lack of coordination, communication, and stakeholders (especially the employees) inclusiveness in making a decision.
6. Lack of local community engagement, impact assessments, and development program.
7. Has no specific SOP related to Depot Cikampek social responsibility
8. Has no clearly, openly (transparency) document related information significant potential or actual negative impacts on local communities.
9. Barely provides an opportunity for stakeholders to give input and opinions in the interest of a company.
10. Have not formal or informal forum for discussion and sharing information.

Solution to cover those causes were:

1. Generate Global Reporting Initiative (GRI) sustainability reporting that publicly reported.
2. Generate the stakeholder engagement.
3. Knowledge management system implementation.
4. Develop, embedded, and integrate human rights policies in Depot Cikampek business management.
5. Establish the public affair management as part of organization structure.

#### **B. Further Suggestion**

There are several future studies that Pertamina Patra Niaga can do in improving Depot Cikampek social performance, there are:

<sup>3</sup> Anne T. Lawrence and James Weber, "Business and Society" 12<sup>th</sup> edition, pp. 29, New York: McGraw-Hill, 2008 adapted from Foundation for Public Affairs, *State of Corporate Public Affairs* (September 2005), p.9. Based on a survey of 151 companies.

- Studying the connection between Depot Cikampek economic, environmental, and social performance.
- Stimulate and delve deeper into any proposed solutions to find the kind of stakeholder engagement and knowledge management system that appropriate to Depot Cikampek circumstances.

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- Studying other Pertamina's depots condition and comparing to Depot Cikampek to find out whether the proposed solutions above are appropriate to be implemented in there.

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